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SUBJECT: TALKING FINANCE IN CAMEROON'S COMMERCIAL CAPITAL

¶1. (U) Summary. Despite billions of dollars in excess liquidity in central African banks, much-needed investment in Cameroon is hindered by a lack of long-term capital, underdeveloped capital markets, and a challenging business climate, according to Douala-based bankers and businesspeople. Private banks are moving ahead with new investment tools, and there is some hope that the Government of Cameroon (GRC) will finally move to issue long-promised Treasury Bonds, thereby offering another financial instrument to the market. The promise of the Douala Stock Market remains unfulfilled and is undercut by the competing exchange in Libreville. Douala businessmen are interested in the President's African Financial Sector Initiative and we believe Cameroon could benefit from these funds. End Summary.

Words, but Little Action

¶2. (U) President Biya and Prime Minister Inoni have promised quick action to improve Cameroon's economic growth (which the GRC predicts at between 4.5-5% for 2008) and create much-needed jobs. The Prime Minister has formed an Investment Council, in parallel with a similar World Bank-supported private sector effort. During a January 15-16 trip to Douala, Cameroon's largest city and commercial capital, financial contacts told Poloff they were highly skeptical of GRC investment-promotion initiatives. Cameroon's financial sector is many years behind similar economies in West Africa, they said, expressing frustration that political leaders in Yaounde were unwilling or unable to set the necessary policy course for improved economic growth. The CEO of one international bank said "they have known what needs to be done for years. Why should I believe them now, when they say they want to do it?"

Cash, Cash Everywhere, but Not a Dollar to Loan

¶3. (U) According to the financial experts with whom we spoke, the overriding problem is the lack of long-term capital. Although Central African banks are bulging with between \$1 and 3 billion, very little of those funds are made available to the private sector in a meaningful way. Regional banking regulations require that the terms of a loan must be aligned with the terms of the deposit, meaning that banks are effectively unable to make loans for longer than six years, a time period that is untenable for most significant industrial investments. According to one investment banker, the only feasible investments in Cameroon these days are hotels and commercial real estate, where returns are quickly realized and where tax officials have less leverage to squeeze the investor. Investment in industrial facilities like factories, he said, has been effectively killed by a regulatory environment where tax

officials are given rein to harass and extort commercial operators.

Unfulfilled Potential of the Stock Exchange

¶4. (U) The Douala Stock Exchange (DSX) opened in April 2003 to provide a source of financing for business investment in Cameroon and the region, but so far it has only one listing (bottled water company Tangui). Cameroonian businesses regularly rank difficulty accessing long-term capital as one of the major restraints on growth, but too few are willing to list on the DSX because either they receive cheaper capital from their home offices (for foreign subsidiaries) or they are unwilling to provide the stringent transparency required for listing. According the Chairman of the DSX, the GRC plans to finance a series of new projects through the exchange, including bond issues for a \$1.6 billion expansion of domestic power production (dams and gas powered facilities) and \$150 million in investments through the state-owned National Investment Company (Societe Nationale d'Investissement, or SNI in the French acronym). Within that \$150 million, \$30 million will reportedly finance the GRC's stake in the cobalt mining project to be undertaken by American firm GEOVIC.

¶5. (U) According to private sector financial contacts, however, the DSX has failed to live up to its promise to develop capital markets in the cash-rich central African region in large part because of its continuing feud with the regional stock exchange based in Libreville and the underlying competition between the respective Heads of State. Cameroonian wishing to buy into the Government of Gabon's recent \$200 million bond offer reportedly had to undergo arduous procedures, strewn with processing fees, which ended up undermining many of the benefits of such an offer (including the tax-free status). Equatorial Guinea and other regional players with excess capital would be better able to invest if the Douala and Libreville stock exchanges coordinated in a system

YAOUNDE 00000073 002 OF 002

like EURONEXT in Europe, according to our contacts. Cameroonian businesses have capital they want to invest long-term, including in much-needed infrastructure projects like roads and power production, argued one industry representative, but they simply need the vehicles to do so.

Waiting for T Bonds and the Fruits of Privatization

¶6. (U) When asked for identifiable "next steps" the GRC could take to spark the financial markets, the financial experts with whom we spoke identified two easy wins: the GRC could issue Treasury Bonds and could follow through on promises to float equity in privatized parastatals. Bemoaning the fact that Cameroon lags behind other African economies that have issued substantial Treasury Bonds and illustrating the demand for such financial instruments, one international banker said he had set aside more than \$1 million in expectation that the Ministry of Finance would issue the long awaited bonds in FY2008. When Cameroon undertook privatization of some parastatals, including banking institutions and agricultural plantations, the deals included commitments (sometimes by the company, sometimes by the GRC) that certain shares would be made available to local investors. The GRC has never enforced or abided by these provisions. As a result, Cameroonian investors have been unable to partake in the growth of these enterprises and some of the entities have suffered for lack of available capital.

Comment: Is the GRC Serious about Economic Reform?

¶7. (SBU) Our Douala contacts were skeptical that Yaounde-based politicians would follow through on their promises to make reforms to spur economic growth. The GRC's professed desire to grow the economy makes political sense. With mounting national frustration over stagnating standards of living and limited employment, the need for economic growth is increasingly obvious and urgent. The question is whether GRC leadership is prepared to move beyond speeches to get down to the actual business of reforms or whether they will continue to be distracted by other "priorities" (such as

constitutional reform and the national soccer team). We will seek to use our contacts with Finance Minister Essimi Menye (who received high remarks from everyone we questioned) and other top officials to help push for meaningful next steps.

¶8. (U) The financial institutions with whom we spoke were pleasantly surprised to learn of President Bush's Africa Financial Sector Initiative (AFSI). All were excited to learn about the specific funds benefiting from OPIC's \$250 million financing and expressed interest in meeting with any officials who would visit Cameroon to explore possible investments. Despite the challenges of doing business in Cameroon, many U.S. companies are doing good business here, as highlighted in our recent Investment Climate Statement. We see a role for the OPIC-supported funds to play in the region, especially in financing long-term capital projects. End comment.

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